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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES - Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE APPLICATION OF COLUMBUS ELECTRIC COOPERATIVE, INC. FOR APPROVAL OF A RATE INCREASE.

DOCKET NO. E-01851A-09-0305

DECISION NO. 71792

OPINION AND ORDER

DATE OF HEARING: February 24, 2010

PLACE OF HEARING: Tucson, Arizona

ADMINISTRATIVE LAW JUDGE: Jane L. Rodda

APPEARANCES: Mr. Charles C. Kretek, HOFACKET & KRETIK, LLC, on behalf of the Columbus Electric Cooperative, Inc.; and

Ms. Ayesha Vohra, Staff Attorney, Arizona Corporation Commission Legal Division on behalf of the Utilities Division.

BY THE COMMISSION:

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Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

FINDINGS OF FACT

1. On June 8, 2009, Columbus Electric Cooperative, Inc. ("Columbus" or "Cooperative") filed an application for a rate increase with the Commission.

2. On July 7, 2009, the Commission's Utilities Division ("Staff") notified the Cooperative that its application was not sufficient under the requirements of the Arizona Administrative Code.

3. The Cooperative filed revised information on July 21, 2009.

4. On August 20, 2009, Staff notified the Company that its rate application was

sufficient, and classified the Company as a Class C utility.

5. By Procedural Order docketed August 26, 2009, the matter was set for hearing on February 24, 2010, at the Commission's offices in Tucson, Arizona.

6. On January 9, 2010, the Cooperative filed certification that it mailed notice of the hearing to its Arizona consumers enclosed with their September 2009 bills.

7. The Commission received one customer comment that suggested the increase should be incorporated into the energy charge rather than the monthly charge in order to encourage conservation.

8. The hearing convened as scheduled before a duly authorized Administrative Law Judge, with the Cooperative and Staff being represented by counsel. Mr. E.L. Moss, a consultant who prepared the rate application, and Mr. Chris Martinez, the Cooperative's marketing manager, testified for Columbus; Ms. Candrea Allen testified for Staff. The pre-filed testimony of Ms. Chrystal Brown and Mr. Prem Bahl for Commission Staff was admitted on stipulation.

9. Columbus is a non-profit rural electric cooperative located in Deming, New Mexico. The Cooperative provides electric service to a total of 5,095 consumers, 4,633 of whom are located in New Mexico and 462 in Arizona.

10. Columbus' current rates were authorized in Decision No. 63986 (August 30, 2001).

11. In the test year ended December 31, 2008, Columbus had total revenues of $10,753,611. Its Arizona test year revenues were $653,367, which after allocated operating expenses of $727,605, produced an operating loss of $74,238 attributed to its Arizona operations. After interest expense and non-operating margins, the Cooperative posted a net loss of $52,827 attributable to its Arizona operations.[1]

12. Columbus is seeking total annual revenue from its Arizona operations of $671,833, an increase of $18,466, or 2.83 percent. The proposed increase would produce an operating loss of $59,107 allocable to Arizona operations, for no rate of return on a proposed Original Cost Rate Base ("OCRB") of $1,781,611. On a consolidated basis including New Mexico, Columbus would have

[1] ExS-1, Schedule CSB-6.

total revenues of $10,980,520 which would produce an operating margin of $869,371, a 3.8 percent rate of return on a system-wide rate base of $22,851,724.

13. Staff recommends approval of the same total revenue requirement as proposed by the Cooperative. Staff states that although the rates recommended by Staff and Columbus result in an operating loss for the Cooperative's Arizona operations, on system-wide basis including New Mexico, Columbus would enjoy an adequate operating Times Interest Earned Ratio ("TIER") of 1.41.[2]

14. Columbus' current rates and those proposed by the Cooperative and Staff are as follows:

	Current	Cooperative Proposed	Staff Proposed
Residential			
Regular Rate			
Monthly Customer Charge	$9.50	$12.35	$12.35
Energy Charge (kWh)	$0.08640	$0.08640	$0.08640
FPPCA[3]	$0.03162	$0.03162	$0.03162
Time of Use Rate			
Monthly Customer Charge	$12.00	$15.60	$15.60
Energy Charge (kWh)			
On Peak	$0.09750	$0.09750	$0.09750
Off Peak	$0.06000	$0.06000	$0.06000
FPPCA	$0.03162	$0.03162	$0.03162
Small Commercial			
Regular Rate			
Monthly Customer Charge	$12.50	$16.25	$16.25
Energy Charge (kWh)	$0.08220	$0.08220	$0.08220
FPPCA	$0.03162	$0.03162	$0.03162
Time of Use Rate[4]			
Monthly Customer Charge	$15.00	$19.50	$19.50
Energy Charge (kWh)			
On Peak	$0.09220	$0.09220	$0.09220
Off Peak	$0.05900	$0.05900	$0.05900
FPPCA	$0.03162	$0.03162	$0.03162
Irrigation			
Regular Rate			
Monthly Customer Charge	$25.00	$32.50	$32.50
Energy Charge (kWh)	$0.092000	$0.092000	$0.092000
FPPCA	$0.03162	$0.03162	$0.03162

[2] Ex S-2 at 2.
[3] Annual (test year) Average Fuel and Purchased Power Cost Adjustment Factor.
[4] There are no Arizona customers using TOU rates.
[5] There are no Arizona customers using TOU rates.

Time of Use Rate[5]			
Monthly Customer Charge	$35.00	$45.50	$45.50
Energy Charge (kWh)			
On Peak	$0.10300	$0.10300	$0.10300
Off Peak	$0.06000	$0.06000	$0.06000
FPPCA	$0.03162	$0.03162	$0.03162
Lighting Service			
Regular Rate			
Monthly Customer Charge			
175 Watt Mercury Vapor Lamps	$11.75	$11.75	$11.75
400 Watt Mercury Vapor Lamps	$23.50	$23.50	$23.50
100 Watt high Pressure Sodium	$13.50	$13.50	$13.50
FPPCA	$0.03162	$0.03162	$0.03162
Agriculture			
Regular Rate			
Monthly Customer Charge	$50.00	$65.00	$65.00
Energy Charge (kWh)	$0.06950	$0.06950	$0.06950
FPPCA	$0.03162	$0.03162	$0.03162

15. The recommended rates for Arizona are identical to the rates adopted in New Mexico, and the earnings by customer class are the same in both states.

16. Both the Cooperative and Staff believe that maintaining uniform rates by customer class for both states is desirable and equitable. The cost of serving Arizona customers is the same as for serving New Mexico customers, but because the Arizona system does not have many large customers and has a low density, the Cooperative experiences a deficit for its Arizona system.[6]

17. Columbus' application reflects an Arizona OCRB of $1,784,610. Staff recommended adjustments that result in a net decrease of $85,045, to $1,699,565. Staff's adjustments removed $2,500 attributed to Construction Work in Process ("CWIP") because it was not used and useful in the test year; and removed $82,545 for Cash Working Capital because the Cooperative did not conduct a lead-lag study. Staff believes it is inequitable for a utility as large as Columbus to calculate working capital by using a method that ignores customer-provided capital and guarantees a positive working capital result.

18. Staff's rate base adjustments are reasonable and should be adopted. The Cooperative did not request a Reconstruction Cost New Rate Base and its Fair Value Rate Base ("FVRB") is deemed to be the same as its OCRB. Columbus' Arizona FVRB is determined to be $1,699,565.

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[5] There are no Arizona customers using TOU rates.
[6] Tr. at 14-15.

19. In the test year, the Cooperative reported Arizona revenues of $653,367. Staff accounted for the cost of power differently than the Cooperative, but Staff did not alter the ultimate determination of test year revenues. The Cooperative reported Arizona Operating Expenses totaling $729,940, resulting in an Operating Loss of $76,573. Staff adjusted Operating Expenses, by removing $2,334, representing dues, charitable contributions and sponsorships, food and scholarships. Staff's adjustment resulted in total Operating Expenses of $727,605, which resulted in an Arizona adjusted test year Operating Loss of $74,238.

20. Staff's adjustments are reasonable and the Cooperative did not object. Therefore we find that in the test year, Columbus experienced an Operating Loss of $74,238, and a Net Loss of $52,827, after interest on long-term debt and the addition of other operating margins.

21. The revenue increase of $18,466, agreed to by Columbus and Staff, is reasonable and results in a small loss attributable to the Cooperative's Arizona operations.

22. Columbus has not proposed a change to its base cost of power, which is currently $0.04172 per kWh. During the period January 2009 through October 2009, the actual cost of power ranged from a low of $0.068442 per kWh in April to a high of $0.080739 per kWh in July. Columbus has a Fuel and Purchased Power Cost Adjustment ("FPPCA") mechanism that allows it to collect or refund any differences between its base cost of power and its actual purchased power costs.

23. Staff recommends that Columbus' current base cost of power remain unchanged.[7]

24. As of October 31, 2009, Columbus' FPPCA was $0.0295558, and at that time, the purchased power bank balance was under-collected by $26,189.

25. Columbus currently has the authority to change its FPPCA rate without Commission approval. Staff reports that with the exception of Sulphur Springs Valley Electric Cooperative, Inc., electric cooperatives in Arizona do not require Commission approval to change the FPPCA rate. Staff does not recommend any changes to the way Columbus manages its FPPCA mechanism. Staff does not believe there has been substantial under-collected bank balances to warrant a change, and notes that from January 2009, through October 2009, Columbus did not have any over-collected bank

[7] Ex S-2, Allen Direct Testimony at 3.

balances.

26. The rates proposed by the Cooperative and Staff would increase a residential bill by $2.85 per month.[8] Thus, a residence using 50 kWhs per month would see an increase form $15.40 to $18.25, or 18.51 percent, a residence using 250 kWhs per month would see an increase from $39.01 to $41.86, or 7.31 percent, and a residence using 500 kWhs per month would see an increase from $68.51 to $71.36, or 4.16 percent.

27. The rate design is identical to that approved by New Mexico and is just and reasonable and should be adopted. It is in the public interest that all of Columbus' members/ratepayers are treated similarly.

28. Columbus has not proposed to modify any portion of its Rules and Regulations for Line and Service Extensions. Staff notes that currently the Rules and Regulations include a section that describes the instances where the Cooperative would provide line and service extensions without charge to the customer. Currently, to determine if a customer will be charged for a line and service extension, Columbus performs an economic feasibility study. If the investment is not more than five times the estimated annual revenue less fuel and purchased power, Columbus will construct the extension with no up-front charge to the customer.

29. Staff believes that Columbus should revise its rules and regulations for line and service extensions to remove the language referring to an economic feasibility study. Staff believes that this would ensure that Columbus' Rules and Regulations for Line and Service Extensions are consistent with recent Commission decisions issued for other electric utilities which have eliminated "free" line extensions.[9]

30. Columbus objected to Staff's recommendation to modify its line and service extension policy.[10] Columbus does not believe it is in the public interest to have different line extension policies in Arizona and New Mexico.[11] Furthermore, the Cooperative does not characterize the policy as

[8] Because the only rate proposed to be changed is the monthly charge, all consumers receive the same $2.85 increase, which amount represents a lower percentage increase with increased usage.
[9] Citing Decision No. 70289 (Graham County Electric Cooperative); Decision No. 70185 (Arizona Public Service Company); Decision No. 70360 (UNS Electric, Inc.); and Decision No. 71230 (Trico Electric Cooperative, Inc.)
[10] Tr. at 20-21.
[11] Tr. at 20.

resulting in a "free" allowance for line extensions.[12] Mr. Martinez explained that the customer is asked to enter into an agreement with Columbus under which the customer agrees to guarantee a minimum take of energy over five years. The customer is asked for a contribution in aid of construction in the amount over and above the revenue credit. Mr. Martinez testified that Columbus has customers with accounts in both New Mexico and Arizona, and it is important to the Cooperative to be consistent between states and that all customers be treated the same.[13]

31. Staff's recommendation concerning the line extension policy is consistent with the Commission's recent Decisions for other electric utilities in Arizona. The purpose of Staff's recommendation is to be consistent with these other Decisions.[14] In this case, the Cooperative conducts an analysis and requires new customers to take a minimum amount of power over five years, and asks for a contribution in aid of construction if the revenues under such contract do not exceed the cost of the new line. Columbus has employed this policy for at least 19 years, and it is a reasonable and equitable way to allocate the costs of new construction. The Cooperative's Arizona customer base is only about 10 percent of its total customer base, and customer growth in Arizona is not substantial. The public benefit that derives from consistent policies for all of Columbus' customers out-weighs the benefit that might derive from insisting upon applying Arizona's policy to less than 500 customers in the State. For these reasons, we will not require Columbus to modify its line extension policy.

32. Staff noted that currently Columbus' Rules and Regulations do not include detailed and specific estimation procedures that would be implemented in cases where Columbus is unable to obtain actual meter reads. Staff states that in recent Commission rate case Decisions, applicants have been ordered to file separate tariffs describing their bill estimation methodologies. Staff recommends that Columbus submit through Docket Control, a separate tariff describing its bill estimation methodologies for Commission consideration, within thirty days of a Decision in this matter. Staff states the tariff should address, but not be limited to the following terms and conditions:

a. Conditions under which estimated bills will be billed to customers.

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[12] Tr. at 21.
[13] Tr. at 23.
[14] Tr. at 61.

b. Notice of estimation clearly noted on estimated bills that are rendered to customers.

c. Estimation procedures that explicitly address the conditions and procedures for estimated bills such as kWh estimates where: i) at least one year of premise history exists for the same customer at the same premise or a new customer with at least one year of premise history; ii) less than one year of premise history for the same customer at the same premises exists; iii) less than one year of premise history exists for a new customer but some premise history exists for a new customer; and iv) no prior consumption history exists.

d. Variations in estimation methods for differing conditions such as cases involving meter tampering or damaged meters.

e. Conditions where bill estimation methods will be developed automatically or manually.

f. Conditions where special procedures may be required such as the installation of meters with automatic reading capabilities, the need to estimate first and final bills, and the requirement to use customer specific data to complete an estimate.

g. Where applicable, clearly indicate that estimation procedures will be in accordance with Arizona Administrative Code R14-2-210 and any other applicable section.

33. The Cooperative did not object to filing a bill estimation tariff.

34. Staff notes further that Columbus does not have any Commission-approved Demand Side Management ("DSM") programs, although it does have an Energy Management and Conservation Plan that has been filed in compliance with the New Mexico Administrative Code. Columbus has indicated that this plan is available to all of its customers in Arizona and New Mexico.

35. Staff recommends that a DSM adjustor be established for Columbus in order to recover the costs should Columbus in the future have a Commission–approved DSM program(s). Staff states that a rate case is the most appropriate forum in which to establish a DSM adjustor. Staff recommends that the associated costs of Commission-approved DSM programs be assessed to all of

Columbus' Arizona electric customers, unless specifically exempted by the Commission. According to Staff's recommendation, once established, the DSM surcharge should be based on a per kWh charge and appear as a single line item, clearly marked, on customers' bills to ensure that customers are provided with the maximum level of transparency when reviewing their bills. Staff states that only DSM costs should be recovered through the DSM adjustor and any recovery for the first year of activity should be based on projections reviewed and approved by the Commission, and any over-collections or under-collections for DSM costs in subsequent years should be monitored in a DSM bank balance and any balance should be trued up annually, when the DSM adjustor rate is recalculated. Under Staff's recommendation, the DSM adjustor should be reset annually on a date set by the Commission, and the new adjustor rate must be approved by the Commission.

36. Staff recommends further that within six months of the effective date of a Decision in this matter that Columbus file a DSM program(s) for Commission approval.

37. The Cooperative opposes Staff's recommendations for a DSM adjustor mechanism because to have certain costs broken out only for Arizona customers affects the margin allocations to customers and would be contrary to the Cooperative's goal to treat all customer classes the same.[15] Mr. Martinez testified that New Mexico requires the Cooperative to submit an Energy Management and Conservation Plan.[16] According to Columbus, that program requires Columbus to manage its energy purchases as efficiently as possible to avoid sharp spikes or valleys in demand. The program also includes rebates for heat pumps, energy star appliances and water heaters done in conjunction with the Cooperative's wholesale power supplier, Tri-State Generation and Transmission Association. The rebate programs are available to Arizona customers.

38. Staff's goal with respect to its DSM recommendation is to encourage conservation or energy.[17] Staff's proposal for a DSM adjustor is to recover the costs of DSM programs.[18]

39. The Cooperative is engaged with DSM programs in conjunction with its wholesale supplier, which programs benefit Arizona customers. It does not appear to make economic or

[15] Tr. at 24.
[16] Tr. at 26.
[17] Tr. at 59.
[18] Tr. at 61.

logistical sense for Columbus to break-out DSM costs for only its Arizona consumers, who comprise 10 percent of its total customer base. Consequently, we will not require Columbus to file for approval of DSM programs in Arizona, nor implement a DSM adjustor for Columbus' Arizona customers at this time. To keep the Commission informed of its energy conservation efforts and the DSM programs available to its members/customers, we direct Columbus to file a copy of its Energy Management and Conservation Plan with the Arizona Commission whenever it files a new plan or updates to the plan with the New Mexico Commission. Filing an extra copy of this plan in Arizona should not add a significant administrative burden or cost for Columbus.

40. On October 13, 2009, Columbus filed a revised version of its Agricultural Service (Schedule AS) tariff. Columbus proposed to change the current language in the Availability and Monthly Rate sections of the tariff to more clearly define the customers eligible for this rate and make the rate more readily available to customers. Columbus also filed a revised Irrigation Service (Schedule I) tariff to transfer two hours per day usage from the On Peak rate to the Off Peak rate. Columbus states that this revision is to the advantage of the customers served under this rate schedule and allows the customers more flexibility in the use of this rate. Staff has no objections to Columbus' additional proposed revisions to its Agricultural Service tariff or Irrigation Service tariff.

41. The proposed Schedule AS and Schedule I are reasonable and should be approved.

CONCLUSIONS OF LAW

1. Columbus is a public service corporation pursuant to Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

2. The Commission has jurisdiction over Columbus' operations within Arizona and the subject matters of the application.

3. Notice of the proceeding was provided in conformance with law.

4. Columbus' Arizona FVRB is deemed to be $1,699,565.

5. The rates, charges and conditions of service approved herein are just and reasonable and in the public interest.

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ORDER

IT IS THEREFORE ORDERED that Columbus Electric Cooperative, Inc. is hereby authorized and directed to file with the Commission, on or before June 30, 2010, revised schedules of rates and charges consistent with the discussion herein and a proof of revenues showing that, based on the adjusted test year level of sales, the revised rates will produce no more than the authorized increase in gross revenues.

IT IS FURTHER ORDERED that the revised schedules of rates and charges shall be effective for all service rendered on and after July 1, 2010.

IT IS FURTHER ORDERED that Columbus Electric Cooperative, Inc. shall notify its customers of the revised schedules of rates and charges authorized herein by means of an insert, in a form acceptable to Staff, included in its next regularly scheduled billing.

IT IS FURTHER ORDERED that Columbus Electric Cooperative, Inc. shall file a copy of its Energy Management and Conservation Plan with Docket Control as a compliance item in this Docket, within 30 days of filing a new plan or update of the plan with the New Mexico Commission.

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IT IS FURTHER ORDERED that within 30 days of the effective date of this Decision, Columbus Electric Cooperative, Inc. shall file for approval of a tariff describing its bill estimation methodology.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 12th day of July, 2010.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT ____________________

DISSENT ____________________

SERVICE LIST FOR: COLUMBUS ELECTRIC COOPERATIVE, INC.

DOCKET NO.: E-01851A-09-0305

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